

Broadcasting's Resurgence. New FTA TV Channels Crowd The Airwaves

By Luca F. Cadura

Ten years ago it was all clear. Traditional, over-the-air linear TV in Italy had no future. Certainly no future for newcomers, as the market was fully controlled by state television (RAI) and Silvio Berlusconi's TV empire, Mediaset.

With 80 to 90 percent of the TV advertising pie already controlled by the two big players, only crumbs would be left for the other networks and no serious player would dare challenge this duopoly.

So, the analysts and pundits pontificated that the future of TV in Italy was in pay-TV and, above all, in OTT. Traditional TV was gone forever and would see its share weakened day by day by the new ways of TV consumption.

As usual, the analysts were wrong. To the contrary, in the past few years, the Italian Free To Air (FTA) market has instead been going through a continuous evolution.

While in the past the DTT expansion was mainly driven by new channels from established operators, today there is a situation where every two or three months viewers see channels from new operators entering the Italian FTA market. Even the big U.S. studios sniffed the opportunity and are launching new digital TV channels, such as Sony Pictures, Paramount, Fox and Universal, in addition to major U.S. media groups, such as Discovery and Scripps.

Nevertheless, DTT is a very demanding market in terms of investment, companies have to secure a good channel position on the digital terrestrial LCN* system, the cost for which depends on how good the channel position is, and pay between two million and four million euros per year to frequency providers such as Mediaset, RAI, Persidera (controlled by Telecom Italia) and Prima TV (owned by Tarak Ben Ammar) just to lease the necessary digital bandwidth. On top of that, companies have programming, marketing and operational costs.

So why this TV channel explosion? The short answer is: because the traditional FTA market found new life in a multichannel environment that didn't seem financially viable a few years ago.

Italy is the third-largest advertising market in Europe and 47 percent of its (equivalent) U.S.\$8 billion advertising revenue flows in through TV advertising. Of this, 90 percent of TV advertising goes to FTA TV, which keeps generating 93 percent of linear viewership.

It all started with a bold landing to free television by Discovery Networks. Discovery had foreseen before everyone else that there was little to no growth in the Italian pay-TV environment.

Italy's satellite service, Sky Italia (owned by 21st Century Fox), basically dictates the rules in the pay market and the trend for the past years was to focus on their own channels. Sky was ready to acquire third-party content for its (and Fox's) channels, but found it counterproductive to allow



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other brands to grow within their subs base.

For pay channel operators in need of distribution, Mediaset's pay-TV platform was not a real option because its limited bandwidth could house only a few channels, and its defensive strategy was aimed at protecting its "real" business: FTA channels.

This left limited options to grow (or even survive) on the Italian pay-TV market. In addition, the Vivendi-Mediaset controversy (see *VideoAge's* June-July 2017 Issue), far from bringing stability, opened up too many scenarios — nothing appealing in the short term.

Similarly, the OTT market was (and is) too underdeveloped to be more than an ancillary revenue stream, so the only real option appeared to be FTA TV.

Therefore, in 2009 Discovery Italia began to look at FTA as a form of expansion. There was one TV channel to start with (Real Time), followed by a bold acquisition that provided additional DTT channels (K2, Frisbee, Focus, GXT, Giallo), and finally the acquisition of LCN's channel 9 (a full broadcast channel with its four Mux of six Mb/s each) from Gruppo Editoriale L'Espresso, rebranded as "Nove" (Nine).

Today, Discovery's cumulative audience share for its seven FTA channels and pay-TV operations reaches to the level of Sky's audience. Suddenly Discovery Media became the third or fourth TV operator in the country after RAI, Mediaset and Sky.

This result, achieved within a very limited period of time, encouraged other broadcasters to assess their FTA option, including the traditional players, RAI and Mediaset, which multiplied

their channel offer to "physically occupy" the market as much as possible and regain some of the advertising money lost by the erosion of their six combined flagship channels.

This "erosion" is what appealed to newcomers to enter the DTT market: Indeed, in the last 10 years the new digital players have secured a cumulative 10 percent of audience share. These new channels proved able to provide interesting options for the voracious Italian TV viewers and to deliver ratings large enough to appeal to advertisers.

Companies like Scripps, Viacom, Sky and Sony as well as local players like De Agostini have all embraced this challenge.

Scripps Networks, recently absorbed into Discovery ownership, entered the market with Fine Living and last spring launched the Italian Food Network.

Viacom is in the FTA TV market with the Paramount Channel, VH1, and a Spike channel launched this month. Moreover, Viacom's internal ad sales unit is adding to its portfolio more third-party channels and in less than two years it has become a powerful player in digital TV ad sales. Sony Pictures entered the DTT market with the kids network Pop followed by Cine Sony. By the end of this year and the beginning of 2018 there will be four or five additional channels compared to the first half of 2017.

A conservative estimate would be that those additional channels will aggregately nibble from the big FTA networks at least two percent of audience share. And, even if the newcomers won't be able to make money with this share, they will at least succeed in splitting U.S.\$ 40 million to \$50 million of advertising by 2019. It may not be enough for the success of all of them, but it surely represents another challenge for traditional TV operators.

In this crowded market, a good brand and a well-targeted programming offer can still deliver a 0.8 percent to two percent of aggregate share. Aiming for a bigger share, however, is like playing in a very different league: moving from a two percent to a four percent or six percent share means a long-term plan with huge investments because players are asking viewers to completely change their habits and substitute their traditional viewing with the new offerings. It's a big game for deep pockets.

What is clear is that this evolution is not over yet. Before stabilizing, the market will see many channels fail, others consolidating and more newcomers trying the "Italian DTT rollercoaster." 

*LCN or Logical Channel Number is the number assigned to identify a TV channel.